Kuala Lumpur Kepong (KLK MK)

Plantation Segment To Maintain Strong Performance

	HOLD (Maintained)
Share Price	RM20.30
Target Price	RM20.50
Upside	0.9%

Highlights

- KLK's plantation segment is likely to continue supporting the company's 4QFY25 earnings, given its positive production trend and recovery in ASPs.
- The downstream segment's contribution may continue to be volatile however, whereas headline earnings in 4QFY25 would likely be impacted by associate Synthomer's losses.
- Maintain HOLD with an unchanged target price of RM20.50.

Analysis

- **9MFY25 results recap.** To recap, Kuala Lumpur Kepong's (KLK) 3QFY25 core net profit rose 29% qoq and 8% yoy to RM332m, with 9MFY25 results deemed within expectations. 3QFY25's sequentially stronger results were underpinned by both its plantation segment – whose FFB production rose 15% qoq – as well as downstream segment, which was in turn driven by sharp earnings recovery for its refinery operations.
- **Plantation earnings contribution to remain strong.** Heading into 4QFY25, earnings contribution from its upstream segment is likely to remain strong, with CPO spot prices having picked back up above RM4,000/tonne since July. Production-wise, average monthly FFB output reported for July-August kept pace with that of 3QFY25 (-1.5% qoq, +1% yoy). On a cumulative basis, 11MFY25 FFB output is up 2.6% yoy, just short of our full-year FFB growth forecast of 4.0% yoy.
- **Downstream contribution could continue to fluctuate.** On the other hand, KLK's downstream segment performance could remain volatile despite the improvement seen in 3QFY25, given the still-challenging business environment and volatile feedstock costs, particularly for its refining business, amid the recent pick-up in CPO prices. As for its oleochemicals business, management's guidance has been relatively more positive. The sub-segment's performance is expected to see gradual improvement after its recent trough, with potential upside in demand seen from certain selected markets as well as its recent capacity expansion.

Key Financials

Year to 30 Jun (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	23,648	22,274	26,658	31,325	31,711
EBITDA	2,579	2,864	3,174	3,397	3,568
Operating profit	1,613	1,817	2,098	2,275	2,403
Net profit (rep./act.)	834	591	1,150	1,307	1,371
Net profit (adj.)	942	899	1,150	1,307	1,371
EPS (sen)	87.3	83.3	112	121	127
PE (x)	26.2	37.1	19.0	16.8	16.0
P/B (x)	1.5	1.6	2.3	2.2	2.2
EV/EBITDA (x)	5.5	4.5	3.7	3.2	3.0
Dividend yield (%)	2	1	3	3	3
Net margin (%)	3.5	3.2	5	4	4
Net debt/(cash) to equity (%)	51.6	50.2	106	109	107
Interest cover (x)	7.9	8	7	7	7
ROE (%)	5.8	4.2	9.8	13.3	13.7
Consensus net profit	-	-	1,210	1,310	1,376
UOBKH/Consensus (x)	-	-	0.95	1.0	1.0

Source: KLK, Bloomberg, UOB Kay Hian

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Stock Data

GICS sector	Consumer Staples
Bloomberg ticker:	KLK MK
Shares issued (m):	1,096.4
Market cap (RMm):	22,673.3
Market cap (US$m):	5,345.7
3-mth avg daily t'over (US$m):	5.6

Price Performance (%)

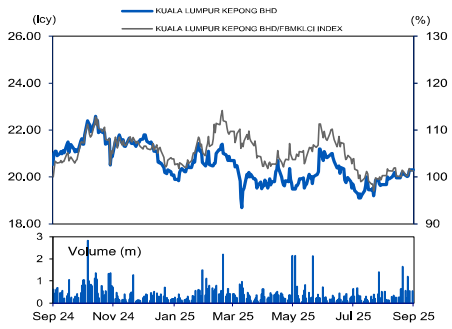
52-week high/low				RM22.66/RM18.34
1mth	3mth	6mth	1yr	YTD
3.2	0.1	(0.6)	(1.1)	(6.4)

Major Shareholders

Batu Kawan Bhd	47.9%

FY25 NAV/Share (RM)	13.6
FY25 Net Debt/Share (RM)	6.84

Price Chart



Source: Bloomberg

Company Description

Plantation company also engaged in downstream manufacturing and property development.

- **4QFY25 headline earnings to be impacted by Synthomer's losses.** This follows the associate's recently-released interim results for 1H25. It reported a net loss of £41.7m (1H24: £30.7m), of which £26.9m has been attributed to non-operating charges amid the ongoing business restructuring. Underlying EBIT for the associate remained comparable at £28.3m in 1H25 (1H24: £28.4m). We estimate that this could amount to around RM64m in share of associate losses attributable to KLK, which will be reflected in its 4QFY25 quarterly results (2QFY25: RM63.3m).

Valuation/Recommendation

- **Maintain HOLD with unchanged target price of RM20.50.** Our valuation is pegged to 17x FY26F PE (-1SD the average five-year mean 23x). We continue to have a neutral stance on the stock despite its positive production growth profile, with CPO prices expected to trade range-bound in the near term in addition to still-limited earnings visibility for its downstream operations. Signs of a sustained recovery for its downstream segment could be a re-rating catalyst down the road.

Earnings Revision/Risk

- **Maintain FY25-27 earnings estimates.** Overall, we continue to project a 28% yoy rise in FY25 core earnings, which will be led by its plantation segment's better performance, given: a) positive upstream production growth driven by the maturing of young palms at its Indonesia estates, b) yield recovery at its East Malaysian estates, and c) ASPs doing better vs FY24. On the other hand, our FY25 earnings estimates continue to be short of FY21-22 peak levels mainly due to the downstream segment's comparatively lower earnings contribution.

Share Price Catalyst

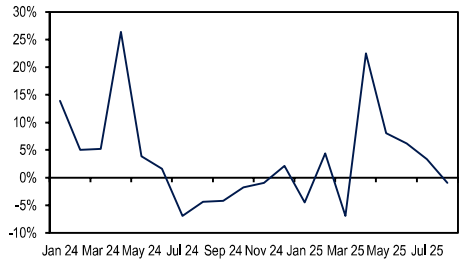
- Better-than-expected CPO prices and production growth.
- Marked recovery in downstream operating margins.
- Potential M&A activities.

1H25 Segment Earnings Drivers

	FY25F
FFB production growth	4.0% yoy
CPO Prices (Spot)	RM4,200/tonne
Downstream Margin	1.5%

Source: UOB Kay Hian

Monthly FFB Production Growth YoY



Source: KLK

ESG Roadmap

- **Environmental**
  - All Malaysian estates are MSPO certified, while Indonesian estates are 80% ISPO certified.
  - Committed to no deforestation, no peat land and no exploitation.
- **Social**
  - Smallholders' development and best practices training programme.
- **Governance**
  - Transparent governance along with an Anti-Bribery and Anti-Corruption Policy.

Profit & Loss

Year to 30 Jun (RMm)	2024	2025	2026F	2027F
Net turnover	22,274	26,658	31,325	31,711
EBITDA	2,864	3,174	3,397	3,568
Deprec. & amort.	1,048	1,075	1,122	1,165
EBIT	1,817	2,098	2,275	2,403
Total other non-operating income	171	174	172	173
Associate contributions	-127	100	100	100
Net interest income/(expense)	-374	-454	-500	-545
Pre-tax profit	1,184	1,919	2,048	2,133
Tax	-168	-461	-492	-512
Minorities	-45	-250	-249	-249
Net profit	591	1,150	1,307	1,371
Net profit (adj.)	899	1,150	1,307	1,371

Balance Sheet

Year to 30 Jun (RMm)	2024	2025	2026F	2027F
Fixed assets	13,187	13,788	14,354	14,874
Other LT assets	21,203	21,741	22,342	22,859
Cash/ST investment	2,392	2,617	3,798	5,475
Other current assets	4,923	4,923	4,923	4,923
Total assets	30,530	32,719	35,924	38,226
ST debt	4,783	4,483	4,183	3,883
Other current liabilities	325	343	362	384
LT debt	6,442	8,463	10,480	12,497
Other LT liabilities	959	5,078	5,631	5,631
Shareholders' equity	13,726	9,745	9,942	10,208
Minority interest	1,303	1,553	1,802	2,051
Total liabilities & equity	30,530	32,719	35,924	38,226

Cash Flow

Year to 30 Jun (RMm)	2024	2025	2026F	2027F
Operating	1,685	765	1,758	2,287
Pre-tax profit	1,183	1,919	2,048	2,133
Tax	-399	-461	-492	-512
Deprec. & amort.	1040	1075	1122	1165
Working capital changes	-214	-1307	-459	-38
Other operating cashflows	74	-461	-461	-461
Investing	-1,986	-1,641	-1,641	-1,641
Capex (maintenance)	-1641	-1641	-1641	-1641
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	519	1112	1063	1031
Dividend payments	-296	-604	-654	-686
Issue of shares	-1	0	1	2
Proceeds from borrowings	2017	2017	2017	2017
Loan repayment	-535	-300	-300	-300
Others/interest paid	-666	0	0	0
Net cash inflow (outflow)	218	236	1,180	1,676
Beginning cash & cash equivalent	2,298	2,381	2,617	3,798
Changes due to forex impact	-135	0	1	1
Ending cash & cash equivalent	2,381	2,617	3,798	5,475

Key Metrics

Year to 30 Jun (%)	2024	2025	2026F	2027F
Profitability				
EBITDA margin	12.9	11.9	10.8	11.3
Pre-tax margin	5.3	7.2	6.5	6.7
Net margin	3.2	4.5	4.2	4.3
ROA	-1.2	4.5	4.2	4.3
ROE	12.9	11.9	10.8	11.3
Growth				
Turnover	12.2	9.4	4.3	0.3
EBITDA	21.1	-1.6	5.4	3.4
Pre-tax profit	24.2	17.7	9.3	4.3
Net profit	17.8	23.7	9.3	4.3
Net profit (adj.)	17.8	27.7	9.3	4.3
EPS	17.8	27.7	9.3	4.3
Leverage				
Debt to total capital	38.1	114.6	124.9	133.6
Debt to equity	70.2	132.9	147.5	160.5
Net debt/(cash) to equity	50.2	106.0	109.3	106.8
Interest cover (x)	8	7.0	6.8	6.5

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